25 November 2021

Global Markets Research

Daily Market Highlights

25-Nov: Dollar strength gathered momentum

Equities, USD rose after FOMC minutes showed the Fed is open to quicker tapering

US reported strong consumer, housing, manufacturing & trade data

RBNZ hiked key rate by 25bps, NZD tanked

- US stocks rose overnight, supported by a slew of positive US data. The latest FOMC minutes showed policy makers debated the pace of asset tapering as well as the concerns over high inflation. The S&P 500 rose 0.2% alongside NASDAQ that picked up 0.4%. The Dow was little changed (-0.03%) from the previous session's level.

- Treasuries traded on a mixed note as traders digested the FOMC minutes. Short-term yields rose while longer-dated yields edged lower. The yield on the benchmark 10Y UST fell 3bps to 1.63%.

- The dollar staged a resurgence in the FX market on strong US data as well as revelation that the Fed is open to quickening its asset tapering pace to address high inflation. The dollar index rose 0.4% to 96.83. All G10 currencies weakened against the USD except the CAD which stayed flat. NZD tanked over 1.0% after the RBNZ appeared to have disappointed the market by delivering a 25bps rate hike, instead of a larger increase.

- USD/MYR advanced 0.3% to close at 4.2105 on Wednesday. MYR. We revised the weekly range to 4.18-4.22 as the firmer USD overnight may continue to push the pair higher given the little domestic catalysts to drive MYR.

- Gold prices consolidated recent losses, trading on a muted note. Futures were little changed (+0.03%) at $1784.30/oz. Crude oil prices stabilised as traders weighed mixed oil related headlines. The weekly EIA report showed a 1million-barrels build-up in US crude inventory.

- This came a day after the US coordinated a move with major countries (China, Japan, UK, India and South Korea) to tap into their respective oil reserves to curb the elevated prices. In return, Saudi Arabia and Russia were reportedly considering a move to pause the current plan to raise outputs. Brent crude slipped 0.1% to $82.25/barrel. WTI ticked lower by 0.1% to $78.39/barrel.

- Germany is expected to have a new Chancellor by Christmas. Olaf Scholz is expected to replace outgoing long-time Chancellor Angela Merkel after clinching a new 3-party coalition deal.

FOMC minutes revealed policy makers' concern over inflation and divided opinions on pace of asset tapering:

- In the 2-3 November meeting, the Federal Reserve announced that it would start to taper its monthly $120b asset purchase program, by $15b each in November and December. The newly released minutes showed that policy makers made this decision because the criteria of substantial progress in reaching maximum employment as well as inflation had been met and in the latter case, more than

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	35,804.38	-0.03
S&P 500	4,701.46	0.23
NASDAQ	15,845.23	0.44
Stoxx 600	479.69	0.09
FTSE 100	7,286.32	0.27
Nikkei 225	29,302.66	-1.58
Hang Seng	24,685.50	0.14
Straits Times	3,227.15	-0.01
KLCI 30	1,522.27	-0.04
FX		
Dollar Index	96.88	0.40
EUR/USD	1.1199	-0.44
GBP/USD	1.3328	-0.37
USD/JPY	115.43	0.25
AUD/USD	0.7196	-0.44
USD/CNH	6.3956	0.07
USD/MYR	4.2105	0.29
USD/SGD	1.3684	0.23
Commodities		
WTI ($/bbl)	78.39	-0.14
Brent ($/bbl)	82.25	-0.07
Gold ($/oz)	1,784.30	0.03

Source: Bloomberg, HLBB Global Markets Research being met. The minutes also showed policy makers discussing at length the issue of high inflation in the US. Policy makers still maintain the view that the higher inflation may dissipate at some point as those pressures continued to reflect the same pandemic-related imbalances and would likely abate when supply constraints eased. Some pointed out that elevated inflation could prove more persistent.

- It was revealed that some participants preferred a somewhat faster pace of reductions that would result in an earlier conclusion to net purchases. Some stressed that the beginning of asset tapering was not intended as a direct signal for the next fed funds rate hike. They highlighted the more stringent criteria for raising rate, compared to asset tapering.
- Policy makers were divided over the pace of reduction, some officials said that the Fed should be prepared to adjust the pace of asset purchases and raise rates sooner than currently anticipated if inflation continued to run higher than levels consistent with the FOMC's objectives. On the other hand, a handful of officials prefer a patient attitude, citing uncertainty about supply chains, production logistics, and the pandemic.
- Nonetheless, the FOMC would not would not hesitate to take appropriate actions to address inflation pressures that posed risks to its longer-run price stability and employment objectives.

US 3Q GDP revised up; personal income & spending rose; core PCE inflation at 4.1%:

- The US third quarter GDP growth was revised higher to 2.1% annualised q/q rate, from 2.0% prior. However, this is slightly below the expected revision to 2.2% q/q. In the second quarter, the economy expanded by 6.7% q/q.
- Initial jobless claims fell to 199k last week (prior: 270k), lower than the pre-pandemic levels as the US hiring activity continued to outpace layoffs.
- Personal income rose 0.5% m/m in October (Sep: -1.0%); this in turn supported the 1.3% m/m gain in personal spending (Sep: +0.6%). Both readings beat expectations. The core PCE inflation surged to 4.1% y/y in October (Sep: +3.7%), highlighting the continuing rise in inflation, driven by supply chain constraints and robust demand.
- The University of Michigan Consumer Sentiment Index fell to 67.4 in November (Oct: 71.7), attributed to consumers' concern of "rapidly escalating inflation" and the "absence of federal policies that would effectively redress the inflationary damage to household budget".

US exports rose to record high; core capital order growth highlights capex resilience:

- US durable goods orders fell 0.5% m/m in October (Sep: -0.4%), but the core capital orders, seen as a gauge of business investment, managed to pick up 0.6% m/m while also accompanied by a strong upward revision to September's reading (+1.3% m/m). The reading points to strong demand on the part of US businesses at the start of the fourth quarter.
- The US goods trade deficit narrowed to $82.9b in October (Sep: -$97.0b), as exports rose sharply by 10.7% m/m to a record high of $157b. In comparison, imports had only picked up slightly (+0.5% m/m), albeit also to a record high level of $240b.

Solid housing demand in the US:

- New home sales rose 0.4% m/m in October, better than expectations, but September's sales were revised down sharply to show a smaller increase of 7.1% m/m, instead of the previously reported 14.0% growth. Nonetheless, housing demand remained strong in the US, driving up the median price of a new home to a fresh high of $407,700.
- Mortgage applications rose 1.8% w/w last week following the 2.8% decline prior. The applications to purchase homes recorded a solid 4.7% (a sign of strong demand) while the refinancing applications gained slightly by 0.4%.

Japan PMIs strengthened in November:

- Japan's economic activity rose at a quicker pace in the month of November following the relaxation of economic restrictions as well as higher vaccination rates.

The Markit manufacturing PMI rose to 54.2 in November (Oct: 53.2), according to a flash reading to signal a solid improvement in the manufacturing operating condition. Notably, the concurrently released services PMI also picked up to 52.1 in the same month (Oct: 50.7) adding to signs of a services sector revival in 4Q.

RBNZ raised OCR by a further 25bps:

- The RBNZ raised the official cash rate (OCR) by 25bps to 0.75% as expected. This followed a hike of similar magnitude in the previous meeting in early October. It expects the New Zealand economy to recover as restrictions are eased and the country moves into the Covid-19 Protection Framework. Key points from the meeting minutes include tight labour conditions that were reflected in the stronger aggregate wage growth. Inflation is expected to remain high in the near term, and return to the midpoint of the target band (1-3%) over the next two years. It also foresees continued rise in OCR combined with other factors such as tighter lending rules to moderate rising house prices. It reaffirmed the plan to normalise policy rate, citing "higher interest rates are now needed to maintain price stability and maximum sustainable employment, and that the OCR remains their preferred tool to do this".
- On a separate note, New Zealand's trade deficit narrowed to NZD1.29b in October (Sep: -NZD2.21b) Exports surged 22.6% m/m, thanks to the higher prices of primary commodity exports while imports rose 1.0% m/m.

House View and Forecasts

FX	This Week	4Q-21	1Q-22	2Q-22	3Q-22
DXY	94-96	94.50	95.00	95.50	96.50
EUR/USD	1.13-1.15	1.15	1.14	1.14	1.13
GBP/USD	1.33-1.36	1.35	1.35	1.34	1.33
AUD/USD	0.71-0.74	0.72	0.71	0.71	0.70
USD/JPY	113-115	112	113	114	115
USD/MYR	4.18-4.22	4.15	4.15	4.15	4.15
USD/SGD	1.35-1.37	1.35	1.34	1.33	1.34

Policy Rate %	Current	4Q-21	1Q-22	2Q-22	3Q-22
Fed	0-0.25%	0-0.25%	0-0.25%	0-0.25%	0-0.25%
ECB	-0.50	-0.50	-0.50	-0.50	-0.50
BOE	0.10	0.10	0.10	0.10	0.25
RBA	0.10	0.10	0.10	0.10	0.10
BOJ	-0.10	-0.10	-0.10	-0.10	-0.10
BNM	1.75	1.75	1.75	1.75	1.75

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
25/11	JP Machine Tool Orders YoY (Oct F)	81.5%
	HK Exports YoY (Oct)	16.5%
26/11	NZ ANZ Consumer Confidence Index (Nov)	98.0
	AU Retail Sales MoM (Oct)	1.3%
	MA CPI YoY (Oct)	2.2%
	SG Industrial Production YoY (Oct)	-3.4%

Source: Bloomberg

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